

CONGRESSWOMAN

Carolyn McCarthy

Tax Relief For Long Island - 107th Congress

As a lifelong resident of Long Island, Congresswoman Carolyn McCarthy knows about the strain Long Island families endure because of high taxes. That is why she supports, and helped pass, several tax relief bills that benefit all Long Islanders.

ECONOMIC GROWTH AND TAX RELIEF ACT

After a long debate over the specifics included in a tax relief bill, Congresswoman McCarthy supported legislation providing \$1.35 trillion in tax relief over 10 years. Listed below are the specific provisions included in the bill as well as its impact on Long Island. (P.L. 107-16).

✓ **Tax Rebate**

In order to take advantage of the new 10 percent tax rate, the Treasury immediately sent rebate checks - **\$300 for individual filers, \$500 for heads of households and \$600 for couples filing jointly.**

Impact on Long Island - Most Long Islanders should have received checks between July and October 2001 if they pay taxes.

✓ **Income Tax Cuts**

- ▶ Creates a new 10 percent tax rate retroactive to Jan. 1, 2001, for the first \$6,000 of taxable income for single taxpayers, \$10,000 for heads of households and \$12,000 for married couples filing jointly. Beginning in 2008, the 10 percent rate would apply to the first \$7,000 for single filers, \$10,000 for heads of households and \$14,000 for joint filers. These amounts are also indexed for inflation starting in 2009.

Beginning July 1, 2001, the other tax rates will be reduced as follows:

Current Rate

New Tax Rates By 2006

10 percent (*retroactive Jan. 1st*)

15 percent

28 percent

31 percent

36 percent

15 percent

25 percent

28 percent

33 percent

Except for the creation of the 10 percent bracket, the reduction of other tax rates are *phased-in*.

Impact on Long Island - The creation of the 10 percent bracket helps everyone. The majority of Long Islanders will benefit from upper level rate reductions because of the cost of living. For example, most of our constituents fall within the 28 to 36 percent rate brackets (\$45,200 - \$297,350). Their new tax rates will be reduced to 25 percent, 28 percent and 33 percent respectively.

✓ ***Marriage Penalty Relief***

- ▶ The conference agreement increases the standard deduction for married couples filing jointly to twice the basic standard deduction for an unmarried individual filing a single return.
- ▶ Increases the upper boundary of the 15 percent tax bracket for married filers to double that of single filers. Currently, the 15 percent rate applies to income up to \$27,050 for singles and up to \$45,200 for couples. After the phase-in, couples would pay 15 percent on up to \$54,100.
- ▶ These new provisions are phased-in over five years beginning in 2005.

Impact on Long Island - Most couples on Long Island will benefit from this proposal because the marriage penalty generally affects dual income households. Both spouses are usually forced to work because of the high cost of living on Long Island.

✓ ***Alternative Minimum Tax (AMT)***

Increases, through 2004 only, the amount of income exempt from the AMT. The total for single filers would increase to \$35,750, from \$33,750; and for married couples to \$49,000, from \$45,000.

Impact on Long Island - Adjusting the AMT is important because it was never adjusted to compensate the large number of deduction added to the tax code of the years. Therefore, if a family takes advantage of the child credit, earned income tax credit or other tax credits, it could reduce their taxable income to a level below the AMT. Hence, negating the usefulness of the tax credit.

✓ ***Personal Exemption & Deduction Limits***

From 2006 through 2009, the bill phases out restrictions on personal exemptions and itemized deductions claimed by upper-income taxpayers.

✓ ***Earned Income Tax Credit***

Increases the beginning and end points of the refundable earned income tax credit phase-out for married taxpayers filing jointly by \$1,000 annually in 2002-04; by \$2,000 in 2005-07, and by \$3,000 in 2008. The end points would be indexed to inflation in 2009.

Impact on Long Island - The earned income tax credit (EITC), established in the tax code in 1975, offers cash aid to working parents with relatively low incomes who care for dependent children. (Smaller credits began in 1994 for low-income workers with no children.) The EITC is federal cash aid available to all working poor families with children.

✓ ***Child Tax Credit***

- Doubles the \$500 per child tax credit over 10 years, starting with a boost to \$600 this year. Increases the credit to \$700 per child in 2005, \$800 in 2009 and \$1,000 in 2010.
- Makes credit refundable for up to 10 percent of taxpayer's income over \$10,000 in 2001, and up to 15 percent in 2005.
- Taxpayers with too little income to owe income tax, but who are subject to payroll taxes, would benefit from the child tax credit.

Impact on Long Island - This provision benefits all families on Long Island with children. Making it refundable also helps the lower income families.

✓ ***Adoption Tax Credit***

- Beginning in 2002, increases the adoption tax credit to \$10,000, from \$6,000 for special needs children and \$5,000 for all others.
- Makes credit permanent.

✓ ***Estate Tax Phase-out***

- Phases out estate tax over 10 years, while reducing the gift tax to 35 percent, the highest income tax rate.
- The unified credit exemption from the estate tax would increase from \$675,000 to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006 and \$3.5 million in 2009. The highest tax rate would drop to 50 percent in 2002.
- Repeals the "stepped up" basis for valuation of inherited assets in 2010, instead imposing a "carryover" basis. Capital gains tax would be owed on the difference between what the deceased paid for the assets in the estate and their current market value, allowing an exemption of \$1.3 million in gain plus \$3 million for a surviving spouse.
- Includes the McCarthy-Abercrombie language expanding the availability of installment payment rules to closely held family-owned small businesses.

Impact on Long Island - The McCarthy-Abercrombie provision is especially important for family-owned small businesses on Long Island.

✓ ***Retirement Savings***

IRA Provisions

- Phases in over seven years an increase in contribution limits for both traditional and Roth Individual Retirement Accounts from \$2,000 per year to \$5,000.
- The limit would climb to \$3,000 in 2002, \$4,000 in 2005 and \$5,000 in 2008.
- Starting in 2009, the limit would be indexed for inflation in \$500 increments.

401(k) Provisions

- Phases in over five years an increase from \$10,500 to \$15,000 per year in the amount individuals may contribute annually to a 401(k) plan, a tax-sheltered annuity or a salary-reduced simplified employee pension plan. The limit would rise to \$11,000 in 2002 and grow in \$1,000 increments each year until it reached \$15,000 in 2006.
- Eases "rollover" rules to make it easier for employees to move pension savings to another plan when they change jobs, and reduces from five years to three the amount of time an employee must work for a business before securing a right to a pension benefit.

Impact on Long Island - Very helpful for Long Island families if they plan to live on the Island after they retire.

✓ ***Education Savings Accounts***

- Beginning in 2002, increases from \$500 to \$2,000 per year the amount taxpayers may set aside in education savings accounts and allows the money to be used for elementary and secondary school expenses in addition to higher education costs.
- Contributions are not deductible, but earnings on the accounts are tax-free if the money is spent for education.

Impact on Long Island - Due to the outrageous cost of attending a 4-year college, along with escalating tuition at private elementary and secondary schools, this tax should help Long Island families with their children's education.

✓ ***College Tuition Deductions***

- Allows a deduction for higher education costs in 2002 through 2005.
- Individuals with adjusted gross incomes up to \$65,000 and couples with up to \$130,000 could deduct up to \$3,000 per year in 2002 and 2003, increasing to \$4,000 in 2004 and 2005.
- Individuals making up to \$85,000 per year and couples making up to \$160,000 could deduct up to \$2,000 in education expenses.

✓ ***Student Loan Interest Deductions***

- Beginning in 2002, increases the income levels at which a \$2,500 per year deduction for interest on student loans phases out. Currently the deduction phases out for individuals making between \$40,000 and \$55,000 and for married couples making between \$60,000 and \$75,000.
- The ranges would increase next year to \$50,000 to \$65,000 for singles and \$100,000 to \$130,000 for couples.
- Beginning in 2003, the phase-out ranges would be indexed for inflation.
- Contains similar provisions included in Congresswoman McCarthy's Student Loan Interest Deduction bill - H.R. 678.

✓ ***Employer-Provided Educational Aid***

- Beginning in 2002, expands the \$5,250 exclusion from taxable income for employer-paid education expenses to cover graduate as well as undergraduate education and makes the exclusion permanent.

PERMANENT TAX RELIEF PROVISIONS

In the Spring of 2002, Congresswoman McCarthy voted to permanently adopt several of the tax relief provisions she supported in the Economic Growth and Tax Relief Act (*P.L. 107-16*). They consist of the following:

- H.R. 4823 - Making the Holocaust Tax Exemption Permanent
- H.R. 4800 - Making the Adoption Tax Credit Permanent
- H.R. 2143 - Making the Estate Tax Repeal Permanent
- H.R. 4019 - Making the Marriage Penalty Tax Cut Permanent
- H.R. 4931 - Making Pension Reform Permanent

ECONOMIC STIMULUS

A variety of factors has led our country into a recession. In order to jumpstart the economy, Congresswoman McCarthy supported an economic stimulus package that helps unemployed workers, provides tax relief for individuals and businesses and helps in the rebuilding efforts for New York. The bill, H.R. 622, includes the following provisions:

Individual Tax Provisions

☐ *Supplemental Rebate*

The bill provides a supplemental tax rebate for those who received only a partial tax rebate or no rebate under last spring's tax cut. Under the bill, those who received only a partial rebate would receive a "top up" to the full \$300 per individual, or \$600 per couple. For example, if a single person received a check for \$100 earlier this year under the first rebate calculation, he or she would receive an additional \$200. Those who received the full amount under last spring's tax cut would not receive an additional check. Individuals who filed a tax return for 2000 before October 16 but did not receive a check under the previous rebate formula, would receive a rebate of \$300 (\$600 for married couples) regardless of whether they had any income tax liability.

☐ *Accelerated Phase-In of 25% Tax Bracket*

The bill accelerates the phase-in of the 25% tax rate so that the new rate is fully phased in retroactive to Jan. 1 of 2002. Under last spring's tax law, the 28% tax rate was reduced to 27% in July, and is currently scheduled to be reduced to 26% in 2004 and 25% in 2006. Under this, the current rate of 27% would be reduced to 25% for the 2002 tax year.

☐ *Temporary Increase in AMT Exemption Limits*

The measure increases the amount of income that is exempt from the alternative minimum tax (AMT) for individuals and married couples in 2002, 2003 and 2004. (The temporary increase is intended to offset any new AMT liability taxpayers may have due to the accelerated phase-in of the 25% tax rate.)

Under the measure, the AMT exemption would be increased by \$3,200 for joint filers and \$1,600 for individual filers in 2002 and 2003 and by \$1,700 for joint filers (\$850 for individuals) in 2004. Another provision of the bill repeals the limitation on depreciation adjustment, the 90% limit for net operating losses and the 90% limit on foreign tax credits for individuals when calculating AMT.

Health Insurance and Unemployment Benefits

☐ *Health Insurance Tax Credit*

The bill provides a refundable tax credit for 60% of health insurance premiums paid by unemployed workers. Under the measure, the credit would be available to those who became involuntarily unemployed between March 15, 2001 and before 2004. The credit would be available for coverage in 2002 and 2003, up to a maximum of 12 months and could be used to purchase private insurance or COBRA benefits (for laid-off workers to

buy into former employers' health plans).

The measure also includes a provision providing grants to states to encourage the creation and maintenance of health insurance pools for "high-risk" individuals who would generally face higher health insurance rates.

The measure also makes available to states \$3.9 BILLION in national emergency grants to be used for health care and reemployment assistance for displaced workers, and provides an additional \$4.6 BILLION to states for health care expenses.

☐ ***Unemployment Benefits***

The bill provides up to 13 weeks of temporary extended unemployment benefits for workers who filed a claim for unemployment benefits after March 14, 2001 and who have exhausted their regular benefits.

In addition, the measure provides an additional 13 weeks of benefits to workers in states with an insured unemployment rate of 4% who exhaust the temporary extended benefits provided above. (Under the Federal-State Extended Benefits Program, up to an additional 13 weeks of benefits are available in states with an insured unemployment rate of 5%. The bill lowers the 5% "trigger" to 4%.) The benefits would be 100% federally funded and available through the end of 2002.

The measure also transfers to the states approximately \$8 BILLION of excess funds from the federal unemployment insurance trust funds, which may be used to provide coverage for displaced part-time workers.

☐ ***TANF Supplemental Grant Program***

The measure reauthorizes for the year the Temporary Assistance To Needy Families (TANF) Supplemental Grant program and contingency fund.

Business Tax Laws

☐ ***Additional 30% First-Year Depreciation Allowance***

Under current law, a taxpayer can deduct the cost of purchasing certain property over a number of years through depreciation deductions. The amount that may be deducted is determined under the "modified accelerated cost recovery system," which specifies how the costs for different types of property can be recovered. The recovery period for most personal property is three to 25 years.

The bill permits a temporary additional first-year depreciation deduction of 30% for capital assets or property that generally have a recovery period of 20 years or less, and were purchased on or after Sept. 11. This provision would be in effect for three years.

☐ ***Small Business Capital Costs Deduction***

Under current law, a small business can deduct up to \$24,000 for the cost of purchasing certain property, instead of using depreciation schedules and deducting the cost of the property over a specified number of years. The amount of the deduction that may be taken

is reduced dollar-for-dollar for property over \$200,000. In addition, the amount expensed cannot exceed the taxable income of the business for that year. Any amount that can't be deducted in one year can be carried forward.

The bill temporarily increases, to \$40,000, the amount that may be deducted in a tax year for the cost of purchasing certain property. The measure also increases, to \$325,000, the total cost of equipment eligible for expense. Under the measure, these provisions would apply to property placed in service in the years 2002 and 2003.

❑ ***Net Operating Loss 'Carryback'***

Under current law, a business that suffers a net operating loss can offset that loss by applying part, or all, of it to other tax years. Applying net operating losses to previous years' tax returns is called a "carryback," while application of losses to future returns is called a "carryforward." Currently, businesses generally can carry back losses up to two years and carry them forward losses up to 20 years. Current law also specifies that a taxpayer's net operating loss cannot reduce the alternative taxable income by more than 90%.

The bill temporarily extends the net operating loss carryback period to five years, from two years, for net operating losses in tax years 2001 and 2002. The bill also permits a taxpayer to offset 100% of the alternative minimum taxable income.

❑ ***Modification of AMT for Businesses and Individuals***

The bill repeals the prohibition on deducting certain items when calculating the AMT, including the limitation on depreciation adjustment, the 90% limit for net operating losses and the 90% limit on foreign tax credits for both individuals and corporations. These provisions would be effective beginning in 2002.

(The measure does not repeal the corporate alternative minimum tax or refund AMT paid by businesses, as did the House-passed HR 3090.)

❑ ***Treatment of Leasehold Improvements***

Under current law, the costs of improvements made on leased properties can be deducted each year under depreciation schedules. Most of this property is depreciated over 39 years, even though many leases are much shorter than 39 years. The bill reduces the recovery period for leasehold improvements to 15 years. This provision would apply to leasehold improvements made on or after Sept. 11.

New York Reconstruction

- ❑ The measure includes a number of temporary tax provisions aimed at providing reconstruction incentives to businesses located in the "New York Liberty Zone" surrounding the World Trade Center.

The bill includes the following:

- Expansion of Work Opportunity Credit -- Makes the Work Opportunity Credit available to businesses who employ individuals who work in the recovery zone

around the World Trade Center, or for businesses that relocated from this area, due to damage from the Sept. 11 attacks, to another area in New York City. The credit would be available to businesses in 2002 and 2003 and would include existing employees and new hires.

- Extended 30% Depreciation -- Extends the additional 30% depreciation deduction through 2006 and applies it to residential and non-residential structures through 2009.
- Leasehold Improvements -- Reduces the recovery period for leasehold improvements to five years (through 2006).
- Small Business Expensing -- Increases, by an additional \$35,000 (to \$70,000), the amount that may be deducted by small businesses for the cost of purchasing certain property and includes only 50% of the cost of qualifying property when determining the phase-out point for the deduction (through 2006).
- Tax-exempt Bonds -- Authorizes the issuance of \$8 BILLION in tax-exempt bonds over the next three years for reconstruction in the areas of New York City damaged by the Sept. 11 attacks.
- Reinvesting Gains -- Extends from two years to five years the time a taxpayer has to reinvest gains from property involuntarily converted (i.e., insurance proceeds) in the World Trade Center area on Sept. 11 without paying tax on the gains. The gains must be substantially reinvested in New York City to qualify.

"Tax Extenders"

- ❑ The bill extends a number of tax provisions. Among the credits extended are the following:
 - Multinational "Subpart F" Income -- Extends for five years the current-law "subpart F" exceptions for certain income derived from "active financing" businesses, which include banking, financing and insurance businesses.
 - Non-refundable Personal Credits -- Extends for two years tax credits permitting an individual to offset regular and alternative minimum tax liability with personal non-refundable credits.
 - Work Opportunity Credit -- Extends for two years the provision allowing employers a credit of \$2,500 for employing certain individuals, including those receiving welfare benefits or food stamps.
 - Welfare-to-Work Credit -- Extends for two years the provision allowing employers a credit based on wages paid to employees who are long-term family assistance recipients during the first two years of employment.
 - Wind and Biomass Electricity Production -- Extends for two years the provision allowing a credit for the production of electricity from wind, biomass or poultry-waste facilities.
 - Limitation of Oil and Gas Percentage Depletion -- Extends for two years the suspension of the 100% net income limit for percentage depletion for marginal wells.
 - Archer Medical Savings Accounts (MSAs) – Extends for one year the Archer MSA program through Dec. 2003.

MISCELLANEOUS LEGISLATION

- ❑ Listed below is legislation Congresswoman McCarthy sponsored and cosponsored addressing the terrorist attacks of September 11th. For more information on these bills, please refer to <http://thomas.loc.gov/>.

Bill No.	Title	Description
H.R. 12	IRA Fairness Act of 2001	To amend the Internal Revenue Code of 1986 to increase the limitation on contributions to individual retirement accounts
H.R. 10	Pension Reform	To provide for pension reform, and for other purposes.
	Elimination of Marriage Penalty Act	Eliminates the Marriage Tax Penalty
H.R. 122	Social Security Benefits Tax Relief Act of 2001	Amends the Internal Revenue Code to repeal the 85 percent (second tier) taxation of Social Security and Railroad Retirement benefits. Appropriates, from the general fund, to the Hospital Insurance Trust Fund amounts equal to the reduction in revenue lost because of the repeal. Requires an annual report concerning the funds transferred from the general fund to the Trust Fund.
H.R. 622		To amend the Internal Revenue Code of 1986 to expand the adoption credit, and for other purposes.
H.R. 236	Telephone excise tax repeal bill	To amend the Internal Revenue Code of 1986 to repeal the excise tax on telephone and other communication services.
H.R. 8	Estate Tax Elimination	To amend the Internal Revenue Code of 1986 to phase out the estate and gift taxes over a 10-year period, and for other purposes.
H.R. 906	Mass Transit Tax Credit	To amend the Internal Revenue Code of 1986 to allow a credit against income tax for the costs of employers in providing certain transportation fringe benefits for their employees.
H.R. 1026	IRA Increase	To amend the Internal Revenue Code of 1986 to increase the annual limitation on deductible contributions to individual retirement accounts to \$5,000, and for other purposes.
H.R. 41	R&D Tax Credit	To amend the Internal Revenue Code of 1986 to permanently extend the research credit and to increase the rates of the alternative incremental credit.
H.R. 253	Tax Relief For Families With Children Act	To amend the Internal Revenue Code of 1986 to expand alternatives for families with children and to establish incentives to improve the quality of child care.
H.R. 3713	Dave Thomas Adoption Act of 2002	Allow penalty-free withdrawals from individual retirement plans for adoption expenses
H.R. 678	Student loan interest deduction bill	To amend the Internal Revenue Code of 1986 to increase the amount of the student loan interest deduction and to allow more taxpayers to claim that deduction.